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UNITED STATES DEPARTMENT OF AGRICULTURE — Radio Service — OFFICE OF INFORMATION

HOMEMAKERS' CHAT — Thursday, February 9, 1939.

(FOR BROADCAST USE ONLY)

Subject: "MORE ABOUT CREDIT." Information from the Farm Credit Administration and the Extension Service, U. S. Department of Agriculture.

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Some months ago I read a book called "If I Had Four Apples." It was the story of a city family that over-extended itself on installment buying and charge accounts until so much of its limited income was earmarked in advance that there was nothing left to live on.

I am reminded of this tale because our state agricultural extension service has told me how very differently a wise farm family approaches the question of credit, especially when it follows the advice of the Farm Credit Administration. The Farm Credit Administration has various publications intended to make the whole matter more clear to the farm family. Extension workers follow its recommendations in discussing credit with farm women who are members of home demonstration clubs.

Credit can be a good farm tool, when properly used and understood. But its use depends on a number of factors. It may be advisable and necessary for one family to have cash advances which will increase the income in the near future, while another family would only saddle itself with an intolerable burden by trying to borrow when it had no definite prospect of paying back the loan. The whole family situation always needs to be carefully analyzed when a loan is being considered.

For credit is not additional income. It is an obligation on future income, not only to the amount of the money advanced, but also to include financing charges. This term covers the necessary cost of making the loan, investigating the client, book-keeping, interest, notices, and so on. So one of the first considerations in regard to borrowing a cash sum or buying "on time" is the fact that the family using credit can buy <u>less goods</u> for the same money, because these carrying charges also have to be paid.

Leaving aside the question of real estate mortgages or other "long-term credit", studies show that from 60 to 80 percent of the farm families in the United States use some form of short-term credit each year running from 30 days to 12 months. They use it in three ways. First, to carry on farm production, as when they have to buy feed, seed, fertilizer, chemicals, gasoline, lumber, fencing, machinery, livestock, or pay breeding fees or hire laborers; or for rent, taxes, insurance, or other goods or services connected with the farm business. When by using credit the family can increase the amount of its salable products enough to add more to its gross receipts than the cost of these items adds to total expense, borrowing for productive purposes is a sound business practice.

Second, farm folks borrow to provide the family living. On a large number of farms cash income is seasonal and often irregular. If no money has been set aside to meet current living expenses the family has to use credit - a money loan,

a charge account at the store, possibly both. It is quite generally agreed among extension workers and credit experts that borrowing for family living should be on a very conservative basis and only when there is reasonable certainty that the productive enterprises on the farm will be adequate to pay the bills when due.

The third use for credit is to refinance old debts. These debts may have accumulated because of poor crops, low prices, or sickness in the family. Taxes may be included. All these obligations must be met. It may be good business practice to consolidate them all in one loan, possibly eliminating some financing charges. The family then has a clearer picture of its own financial situation, and by paying its scattered debts off by means of the loan, a better standing in the community.

Here is the way a wise farm family goes over its financial situation with the help of extension workers or lending agencies. First, it puts down all the fixed annual obligations of the family that must be paid out of the total income. These include payments and interest on the farm mortgage, if there is one, and other debts; taxes, fire insurance. Or rent if the farm is not owned.

Next, farm operation must be provided for. On five typical farms in different parts of the country this item ranged from 23 to 38 and a half percent of the total income. Then, how much should be set aside for depreciation, upkeep, repairs, and replacements? If the farm plant is to continue to produce a normal income, buildings, fences, machinery and equipment must be kept in repair and livestock replaced when necessary. Only after these important uses for the family money have been cared for can the family living be provided. In some cases the cash left to live on is not adequate. But on many farms, food and fuel produced at home make it unnecessary to pay out as much cash for living as a city family of similar make-up must spend.

The farm family might expand its living in several ways. 1. By using some of the amounts allocated in the budget for depreciation and upkeep. This is never advocated. 2. By reducing expense for farm operation. 3. By securing employment off the farm. 4. By increasing receipts from marketings. 5. By developing some supplemental enterprise, such as poultry. 6. By renting additional land.

Clearly, farm families aspiring to debt-free farm ownership must budget their incomes very carefully, and expand family living very cautiously if they are to get ahead. If the major part of the family food is produced on the farm, less money will have to be spent for this item and more will be available for other things. Families who make out a net worth statement annually, prepare financial plans, keep records of income and expenses, and summarize them at the end of the year are better able to analyze their financial situation and see whether they are making progress toward achieving their goals.

If credit must be used, the thing to do is to "shop around" and use the lending agency that seems best suited to the family needs. Credit may be a useful tool, but the whole family must realize that credit is not a substitute for income, and that loans must be paid back.

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